

2012 COUNCIL RETREAT

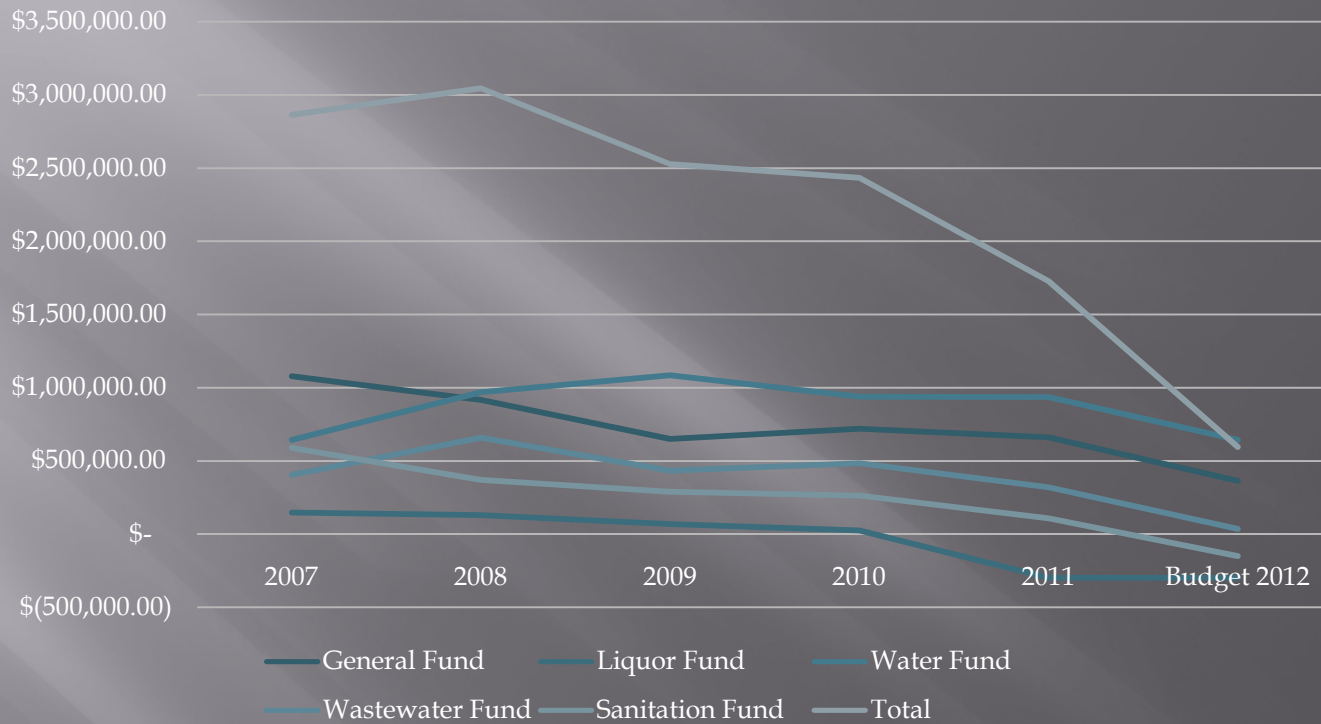
Two options are on the table

Many difficult decisions have been made

- Increased vendor fees by 8%
- Reduced 2012 adopted budget (general fund) by nearly \$220,000
- Entered into a significant negotiation period with the unions
- Began leasing additional City property for the Rally – City Park

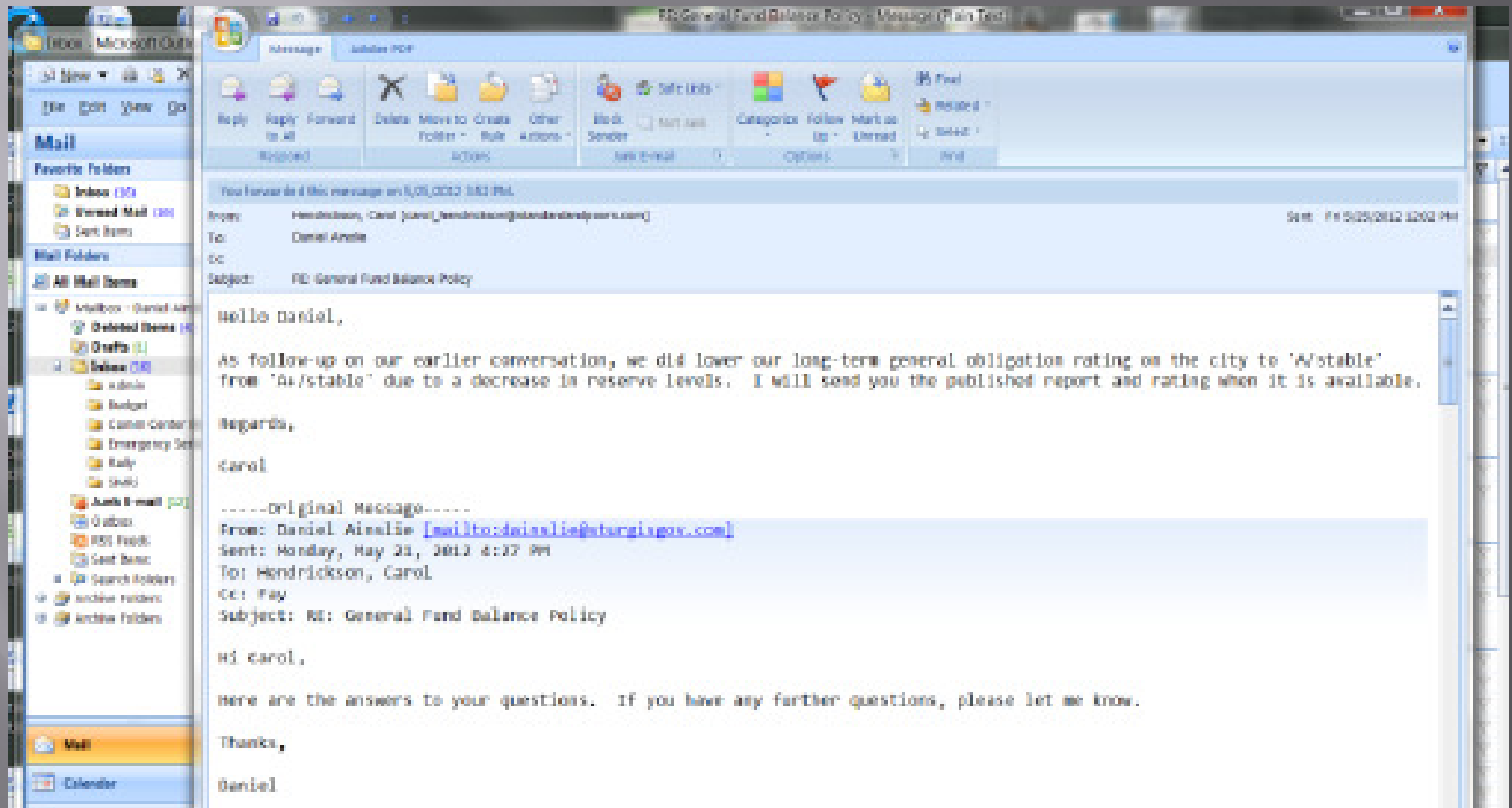
Why this is necessary

End of Year Cash Balances



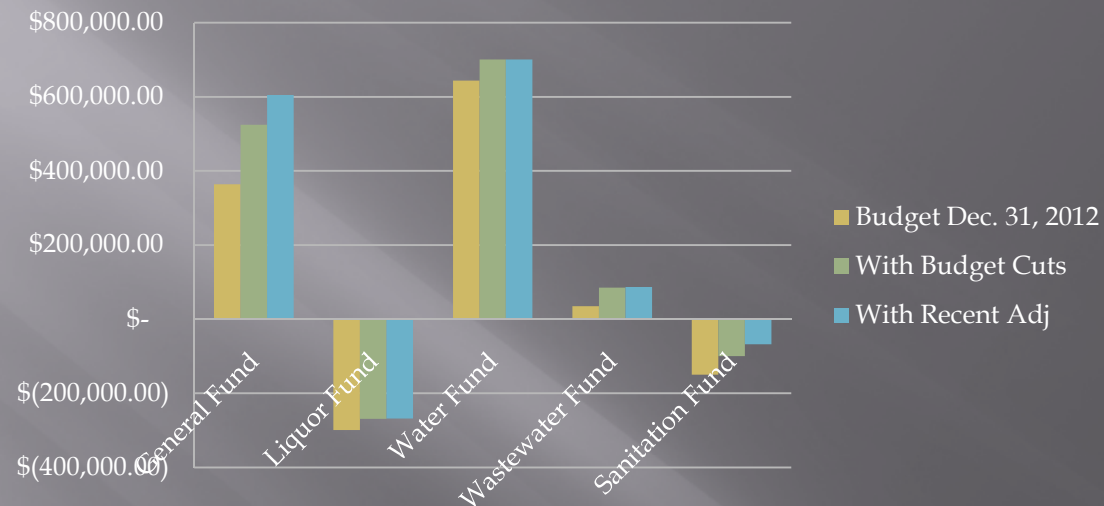
	2007	2008	2009	2010	2011	Budget 2012
General Fund	\$ 1,079,243.00	\$ 916,499.00	\$ 650,673.00	\$ 720,944.00	\$ 661,004.60	\$ 363,912.60
Liquor Fund	\$ 146,455.00	\$ 128,550.00	\$ 67,629.00	\$ 25,212.00	\$ (298,632.15)	\$ (298,632.15)
Water Fund	\$ 643,794.00	\$ 970,625.00	\$ 1,085,522.00	\$ 938,377.00	\$ 936,953.62	\$ 644,100.62
Wastewater Fund	\$ 405,356.00	\$ 659,733.00	\$ 433,870.00	\$ 484,123.00	\$ 320,082.68	\$ 35,062.68
Sanitation Fund	\$ 589,266.00	\$ 370,252.00	\$ 290,200.00	\$ 263,748.00	\$ 107,777.76	\$ (149,954.24)
Total	\$ 2,864,114.00	\$ 3,045,659.00	\$ 2,527,894.00	\$ 2,432,404.00	\$ 1,727,186.51	\$ 594,489.51

What this has led to



We've made progress

New Dec. 31, 2012 Cash Balances



	Budget Dec. 31, 2012	With Budget Cuts	With Recent Adj
General Fund	\$ 363,912.60	\$ 524,573.60	\$ 604,573.60
Liquor Fund	\$ (298,632.15)	\$ (268,632.15)	\$ (268,132.15)
Water Fund	\$ 644,100.62	\$ 700,600.62	\$ 701,100.62
Wastewater Fund	\$ 35,062.68	\$ 85,062.68	\$ 87,062.68
Sanitation Fund	\$ (149,954.24)	\$ (99,954.24)	\$ (67,954.24)
Total	\$ 594,489.51	\$ 941,650.51	\$ 1,056,650.51

Adjustments		
Repeal of Display Only	\$	20,000
Change In Health Ins	\$	36,000
Lease of Soccer Fields	\$	30,000
Spec Sanitation Increase	\$	30,000
Total	\$	116,000

Though the Liquor fund and the Sanitation fund cash balances are negative, both operate a surplus. The City transfers more money out of the funds than they make.

Five Year History of Budgets

	2013	2012	2011	2010	2009
Property Taxes	2,703,136	2,624,404	2,560,394	2,542,131	2,431,066
Sales Tax	1,420,704	1,421,836	1,322,781	1,373,754	1,239,983
Rally Income	1,166,313	1,220,041	1,321,284	1,000,564	917,557
Liquor Dividend/Admin	100,978	207,080	190,810	212,271	257,442
Wastewater Dividend/Admin	169,686	300,000	250,697	121,354	-
Sanitation Dividend/Admin	122,260	180,000	223,643	237,044	-
Ambulance Dividend/Admin	74,250	-	-	-	-
All other	1,178,010	953,676	1,027,490	985,262	1,127,297
Cash on Hand	-	297,092	290,695	-	-
Total Budget	6,935,336	7,204,129	7,187,794	6,472,380	5,973,346

- \$1.2 million structural increase in expenditures
- Funded largely through new/larger dividends, cash on hand, optimistic returns

General Funds Operating Costs

	Budgeted	Actual YE	Actual YE	Actual YE	Actual YE
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
GF Personnel Costs	\$ 4,328,913	\$ 4,050,866	\$ 3,675,143	\$ 3,504,949	\$ 3,327,789
Percentage Increase	6.9%	10.2%	4.9%	5.3%	
Motoring, SMRi, Charities	\$ 328,273	\$ 318,997	\$ 253,506	\$ 250,788	\$ 214,967
Percentsge Increase	2.9%	25.8%	1.1%	16.7%	
GF Budget	\$ 7,204,129	\$ 7,187,794	\$ 6,472,445	\$ 6,953,131	\$ 6,465,224
City Operating Budget	\$ 2,546,943	\$ 2,817,931	\$ 2,543,796	\$ 3,197,394	\$ 2,922,468
Operating Percentage	35.4%	39.2%	39.3%	46.0%	45.2%

*Operating includes insurance, utilities, equipment, brick project, publications

In five years, operating as a percentage of the budget have decreased 10%

Payments to SMRi, Charities and Motoring have increased 53.3%

Personnel costs have increased by 30.1%

In 2013, the proposed GF Budget will be reduced by about \$300,000, most of which will be in operations

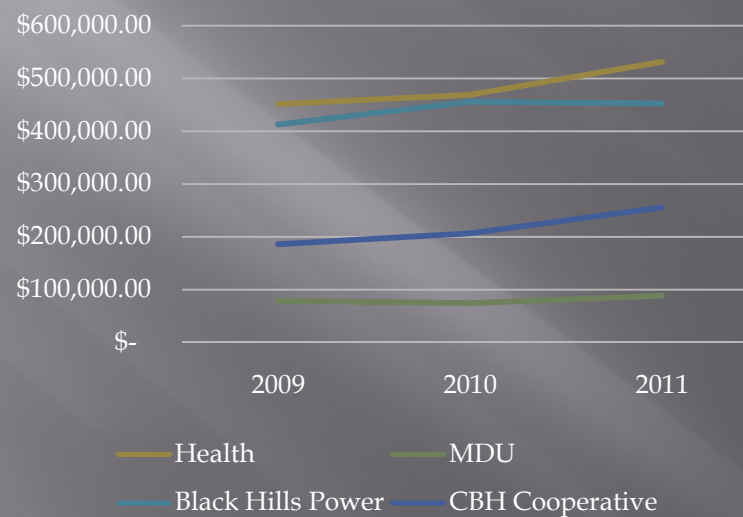
This will be the first reduction in GF expenditures in the five year period

Operations will likely reduce to about 30%, even as utilities, insurances, etc. increase

After 2013, there will be little left to cut beyond personnel, charities and 3rd Party expenditures

Costs are increasing that we can't control

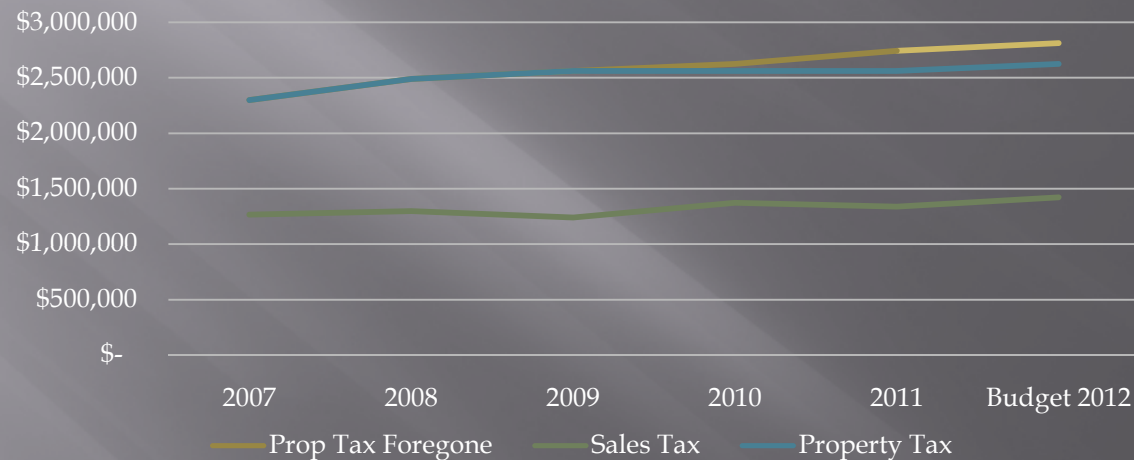
Nonpayroll Expenses



	2009	2010	2011
Health	\$ 451,911.28	\$ 469,248.03	\$ 531,397.07
MDU	\$ 78,700.88	\$ 74,773.44	\$ 88,344.53
Black Hills Power	\$ 413,033.70	\$ 456,091.71	\$ 453,181.75
CBH Cooperative	\$ 186,194.66	\$ 206,757.38	\$ 255,672.77
Total	\$ 1,129,840.52	\$ 1,206,870.56	\$ 1,328,596.12
Percentage Increase		6.8%	10.1%

Our primary income sources have not and cannot keep up with increased costs

Sales & Property Tax



	2007	2008	2009	2010	2011	Budget 2012
Sales Tax	\$ 1,264,813	\$ 1,297,455	\$ 1,239,983	\$ 1,373,754	\$ 1,339,150	\$ 1,421,833
Property Tax	\$ 2,298,370	\$ 2,488,235	\$ 2,560,394	\$ 2,560,394	\$ 2,560,394	\$ 2,624,404
Total Revenue	\$ 3,563,183	\$ 3,785,690	\$ 3,800,377	\$ 3,934,148	\$ 3,899,544	\$ 4,046,237
Percent Increase		6.2%	0.4%	3.5%	-0.9%	3.8%
Prop Tax Foregone	\$ 2,298,370	\$ 2,488,235	\$ 2,560,394	\$ 2,624,404	\$ 2,742,502	\$ 2,811,065
Loss of Prop Tax	\$ -	\$ -	\$ -	\$ 64,010	\$ 182,108	\$ 186,661

Enterprise Funds are depleted

- Sanitation increased \$9 to \$10 (11% increase) in 2006
- Wastewater increased \$17 to \$23 (35% increase) in 2000
- Over the last 8 years cost have increased as follows:
 - Fuel Costs increased 159%
 - Employee Wages increased 35%
 - Employee Health Care Costs increased 68%
 - Equipment Costs have averaged an increase of 35%

Costs of the Rally

- Last year we made \$197,000
- Including Sales Tax we made \$391,000
- These profits do not include time spend by Finance, Attorney, HR, City Manager, etc.
- Many of these departments would have half of the workload without the Rally
- Given these costs and increased construction costs due to shortened construction schedules, the Citizens of Sturgis likely do not benefit or actually loose money from the Rally
- The Comprehensive Plan noted that the City should embark on a plan to profit at least \$1,000,000 from the Rally

The First of Two Options

- Ignore the issue. Hope and pray that sales will build at history making levels
- We have about 18 months from now to do this
 - At that time we will run out of cash in our General Fund and all of our Enterprise Funds

The Second Option

- Follow a balanced approach of reduction in expenditures and increases in revenue
- Expenditures
 - Seek some concessions from employees
 - Investigate and implement targeted restructuring
 - Significantly reduce payments to outside parties

Second Approach continued

➤ Revenues

- Increase revenue from the Rally (vendor fees, leasing space)
- Increase the number of residents in Sturgis
 - Will enhance property tax and sales tax
 - We are a commuting center for the Black Hills region
- Enhance the Community Center
- Improve the hospitality of Sturgis
- Partner with SEDC to enhance Main Street
- Seek modest tax and fee increases until the ship is steadied

Expenditures in Detail

- Concessions from employees
 - Negotiations are ongoing but the City proposal is vastly different than previous contracts
- Investigate targeted restructuring to reduce costs within the General Fund
 - Will require some duties to be spread thinner
- Reduce payments to outside parties
 - Propose to reduce Third Party payments in Council budget by 30%

Revenues in Detail

- Increase Rally Revenue
 - City sponsorship, space & magazine revenue has increased 11% from 2008 to 2012
 - Vendor permit revenue was \$252,000 in 2008 and is estimated to be \$265,000 in 2013.
 - Given the tremendous expense and burden on local citizens should this be expanded? Should we look at a different model? If so it will be contentious but will lead to additional revenue.

Revenues in Detail cont.

- Increase number of residents
 - SEDC's website alone counts 2,914 employees, it does not include numerous small retail and restaurants in Sturgis
 - Sturgis's entire working age population is 3,232 (ages 20-60)
 - We are a net job center for the black hills
- We need more residents to reach economies of scale for the residents (10,000 residents would require about 10 more city employees)
- More residents are the quickest way to increase the property tax basis and the sales tax receipts
- We must focus our efforts and SEDC's efforts on residential construction and perception improvements
 - People are choosing not to live in Sturgis

Revenues in Detail cont.

- Enhance the Community Center
 - In 2013 the Center will require a \$430,000 subsidy
 - In 2013 Recreation will require a \$91,000 subsidy
- The center is the heart of the Community
- Common comment is to give kids something to do
- Staff is developing a Master Plan with several alternatives. It will be presented to Council soon. It will seek to improve the perception of the Community while increasing revenues.

Improve the Hospitality of Sturgis

- We have a valuable name
- Some businesses want to use City facilities to produce events to draw tourists
- Currently our Fairgrounds are highly underutilized
 - 2013 proposed budget includes about \$80,000 for improvements

Partner with SEDC to enhance Main Street

- Focus funding on creating picture spots for tourists
- Focus on redevelopment of key properties
 - Redevelopment would enable year round use
- Will enhance the image of Sturgis
 - The power of positive, progressive press will reinstall confidence in the Community and show that the City is more than a “Rally Town”

Seek modest tax and fee increase

- Continue seeking modest increases until the ship is steadied
 - Annual fee increases for sanitation and wastewater of 3%
 - Property tax increase of 3%
 - For a \$180,000 house, that represents a City Bill of \$1,393, an increase of \$21
- Without these increases the Council will need to identify
 - \$79,000 in cuts to the General Fund
 - \$27,000 in cuts to the Wastewater Fund
 - \$16,350 in cuts to the Sanitation Fund
- This would mean significant cuts in services or the loss of 3 positions

THERE ARE TWO PATHS

Which path do you want the City to
take?